DECISION MEMORANDUM

TO: COMMISSIONER KEMPTON
COMMISSIONER SMITH
COMMISSIONER REDFORD
COMMISSION SECRETARY
COMMISSION STAFF

FROM: KRISTINE SASSER
DEPUTY ATTORNEY GENERAL

DATE: AUGUST 21, 2009

SUBJECT: INTERMOUNTAIN GAS COMPANY'S 2009 PGA,
CASE NO. INT-G-09-02

On August 19, 2009, Intermountain Gas Company filed its annual Purchased Gas Cost Adjustment (PGA) Application requesting authority to decrease its annualized revenues by $72.4 million. Application at 2. The PGA mechanism is used to adjust rates to reflect annual changes in Intermountain's costs for the purchase of natural gas from suppliers – including transportation, storage, and other related costs. *See* Order No. 26019. Intermountain's earnings will not be decreased as a result of the proposed changes in prices and revenues. The Company requests that its Application be processed by Modified Procedure and that its rates become effective on October 1, 2009.

THE APPLICATION

With this Application, Intermountain Gas seeks to pass-through to each of its customer classes a change in gas-related costs resulting from: (1) an increase in costs billed Intermountain due to higher prices charged by Northwest Pipeline GP ("Northwest" or "Northwest Pipeline") offset by a small decline in contract volumes on Northwest; (2) an increase in costs from Intermountain's "upstream" Canadian pipeline suppliers; (3) a decrease in the Company's projected costs relating to its storage contracts; (4) a decrease in Intermountain's Weighted Average Cost of Gas, or "WACOG"; (5) an updated customer allocation of gas-related costs pursuant to the Company's Purchased Gas Cost Adjustment provision; (6) the inclusion of temporary surcharges and credits for one year relating to gas and interstate transportation costs from Intermountain's deferred gas cost accounts; and (7) benefits included in Intermountain's firm transportation and storage costs resulting from Intermountain's management of its storage and firm capacity rights on pipeline systems. Application at 3-4.

Intermountain also seeks with this Application to eliminate the temporary surcharges and credits included in its current prices during the past 12 months, pursuant to Order Nos. 30649 and 30676. The aforementioned changes would result in an overall price decrease to Intermountain's customers.

Intermountain Gas proposes decreasing the WACOG from the currently approved $0.67482 per therm to $0.49600 per therm. The Application maintains that weather adjusted demand for natural gas has diminished, driven by the downturn in our regional and national economy. At the same time, natural gas supplies are plentiful. This current imbalance between supply and demand has driven down the near term prices for natural gas. Application at 6.

The Company asserts that the proposed WACOG includes the benefits resulting from Intermountain's storage of significant amounts of natural gas procured during the summer season for use during the winter when market prices are normally higher. Additionally, and in an effort to further stabilize prices paid by customers during the upcoming winter period, Intermountain has entered into various hedging agreements to lock-in the price for significant portions of its underground storage and other winter "flowing" supplies. Application at 6.

Although current commodity futures prices dictate the use of a $0.49600 per therm WACOG, the Company continues to remain vigilant in monitoring natural gas prices. If forward prices for natural gas materially deviate from $0.49600 per therm, the Company is committed to return to the Commission prior to this winter's heating season to amend these proposed rates.

Pursuant to Order No. 30649, Intermountain included temporary surcharges and credits in its October 1, 2008, and November 15, 2008, prices for the principal reason of collecting or passing back to its customers deferred gas cost charges and benefits. Exhibit No. 4, Line 26 reflects the elimination of these temporary surcharges and credits.

The Company proposes to allocate deferred gas costs from its Account No. 186 balance to its customers through temporary price adjustments to be effective during the 12-month period ending September 30, 2010, as follows: (1) fixed-gas costs credit of $741,556 attributable to the collection of interstate pipeline capacity costs, the true-up of expense issues previously ruled on by the Commission, and mitigating capacity release credits generated from the release of Intermountain's pipeline capacity; (2) deferred gas cost amounts of $12.7 million attributable to variable gas costs since October 1, 2008; and (3) deferred gas costs related to Lost and Unaccounted for Gas which results in a net per therm decrease to both sales and transportation customers. Application at 8.

Intermountain states that a straight cents-per-therm price decrease was not utilized for the LV-1 tariff. The proposed decrease is fixed-cost related and, because there are no fixed costs recovered in the tail block of the LV-1 tariff, a cent per therm increase relating to fixed costs was made only to the first two blocks of the LV-1 tariff. Each block of the proposed T-3 and T-4 tariffs include a uniform cents-per-therm decrease for unaccounted for gas recovery. *Id.*

Intermountain asserts that customers have been notified regarding Intermountain's Application through a customer notice and press release. *Id.* Intermountain states that the proposed overall price changes reflect a just, fair, and equitable pass-through of changes in gas-related costs to Intermountain's customers. Finally, the Company requests that this matter be handled under Modified Procedure pursuant to Rules 201-204 of the Commission's Rules of Procedure and that its rates become effective on October 1, 2009.

STAFF RECOMMENDATION

Staff recommends that the case be processed by Modified Procedure with a 14-day comment period.

COMMISSION DECISION

1. Does the Commission wish to process this case under Modified Procedure?
2. Does the Commission wish to implement a 14-day comment period?

Kristine A. Sasser

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Deputy Attorney General

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